

Midwest Renewable Energy Tracking System (M-RETS)

South Dakota Public Utilities Commission Meeting

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M-RETS Background

What are renewable energy credits?

Renewable energy credits (RECs) are a separate commodity from the power, or in other words, the credits are unbundled from the power. The electricity is sold into the local electric grid where the renewable energy project is located. The RECs may then be sold separately as a commodity into the marketplace. With RECs, the power from the renewable energy facility is not physically delivered to the customer, but the environmental benefits created by the facilities are attributed to that customer, directly offsetting the environmental impact of the customer's conventional energy use. Credits help overcome the obstacle of delivering the perceived benefits of renewable energy to customers who are far away from generating plants. The purchaser of the credit is the sole owner of the environmental attributes of a specific megawatt hour of energy added to the grid. A credit may be sold to meet renewable portfolio standards (RPS) or to substantiate supply source claims for voluntary green pricing programs.

What is a tracking system?

A tracking system first verifies that the generator is producing renewable energy that meets the definition of an REC. Independent verification ensure that no two credits represent the same MWh of energy. The tracking system may then issue tradable renewable credits to the generator. The system also tracks property rights and verifies the amount of credits in a specific account. An important aspect of the tracking system is to check on whether there is any double counting of credits. To prevent double counting a generator should not be allowed to register with more than one renewable energy credit tracking system. A tracking system may also track the retirement date of the credits.

What are the benefits of South Dakota participating in a regional tracking system?

Currently, there is an effort underway to create an Upper Midwest renewable credits system. The tracking system can be designed to accommodate a wide variety of

information. A regional approach would not require the participating states to adopt identical policies or definitions. By participating in a regional tracking system, generators of renewable resources located in South Dakota could more easily trade renewable energy credits, thereby adding value to their renewable energy. A total of 21 states or political subdivisions in the USAⁱ have a mandated RPS, and several states allow renewable energy credits to meet their RPS. Thus, the market for renewable energy credits is increasing. In addition to states that have mandatory RPS, other states encourage their utilities to voluntarily increase the amount of renewable energy used. For example, Minnesota has a renewable energy objective under which utilities must make a good faith effort to use renewables so that 10 percent of energy is from renewable sources by 2015. Minnesota utilities may purchase credits to meet the requirements of this objective and credits may be imported from neighboring states with similar renewable definitions.

How are renewable energy credits traded?

Currently, the trading of RECs can be done bilaterally or through brokers. In addition, some tracking sites have bulletin boards for buyers and sellers to find each other.

What are the costs of a renewable energy credit system?

The main costs of an REC system are the development costs and the ongoing operational costs. With respect to the development costs, the Upper Midwest Regional effort currently underway has obtained a grant to come up with recommendations for a design. The regional group is seeking funding for the software design that could run around \$500,000. After the system is set up, the ongoing operational costs could be paid by a surcharge on certificates issued or on certificates transactions, annual user registration fees, and/or tariffs or schedules already approved by FERC for the transmission companies or power pool.

QUESTIONS & ANSWERS

What is the benefit to South Dakota for participating in such a program?

Tracking and trading RECs will help keep the costs of developing renewable energy down and encourage more renewable energy development. Tradable Renewable Certificates (TRCs) are an important vehicle for the development of renewable energy resources.

Why should South Dakota join M-RETS now, as opposed to waiting a few years?

The longer South Dakota waits to join a renewable credit tracking system, the longer it will be until we benefit from the credit tracking and trading.

Where did the idea for M-RETS originate?

Renewable energy credit tracking and trading has been the subject of much discussion by energy regulators and generators for several years. A companion program to M-RETS was developed by the Western Governor's Association (WGA). The WGA supported creating an independent regional tracking system to substantiate and support verification and tracking of renewable energy generation. This is called the Western Renewable Energy Generation Information System (WREGIS). WREGIS defines the institutional structure to design operating guidelines and to identify information needed to support tracking and registration of renewable generation and accounting of certificates in the Western Interconnection. The M-RETS Technical Committee borrowed ideas and language from the WREGIS working group's papers and recommendations.

What do the stakeholders in our region think of M-RETS?

A survey of potential M-RETS users was distributed to stakeholders in our region: 31 individuals from five states that have a keen interest in such a system. These stakeholders included representatives of state energy offices, state utility commissions, electric utilities and environmental groups. Twenty-two returned the survey. A report on the findings was presented at the Second Midwest Tradable Renewable Certificates Workshop on June 16, 2004. This report indicated that M-RETS should be designed to prevent the double counting or selling of RECs and to demonstrate compliance with state renewable energy policies. Respondents also want M-RETS to issue RECs, create reports about them, and to keep track of these transactions.

How did the stakeholders want M-RETS to be funded?

Respondents were divided when it came to funding a tracking system. Some favored recovering the costs from all utility customers and some favored a tracking system user fee. Those surveyed commented that administrative costs of M-RETS should not be onerous.

What other entities in our region are participating in M-RETS?

Five Midwestern states and one Canadian province have already secured legislation or commission authority approving participation in such a credit tracking system: Iowa, Illinois, Minnesota, North Dakota, Wisconsin and Manitoba.

What other states are involved in such an energy tracking system?

As noted above, a total of 21 states and political subdivisions in the USA have enacted a RPS that require electricity suppliers to include a certain percentage of renewable energy in their electricity supply. In some cases, suppliers can use RECs to comply with state RPS policies. A REC usually equals one MWh of renewable energy generation and represents the perceived environmental benefits, such as avoided air and water emissions. RECs can be purchased and sold independently of electricity generation. Existing systems include ERCOT, New England, PJM and WREGIS. Wisconsin also has an operating system, but want to join M-RETS to expand the regional market for renewable energy.

What is the future of RECs?

The need to track RECs increases as interest in renewable energy grows in our country. Multiple parties may buy and sell RECs, and this may make it difficult to know who owns what RECs at what time. In addition, RECs may be banked for periods of time or purchased on a going-forward basis, adding to the difficulty of tracking. M-RETS would monitor this.

What renewable energy does M-RETS refer to?

Most of the current interest is in wind power development, but renewables could eventually include biomass, solar, small hydroelectric and hydrogen. As with the state's ethanol fuel production, developing these renewable resources can provide new economic development opportunities.

ⁱ The 21 include:	Arizona	15% by 2025
	California	20% by 2017
	Colorado	10% by 2015
	Connecticut	3% by 2006; 6% by 2009
	Delaware	10% by 2019
	District of Columbia	11% by 2022
	Hawaii	10% by 2010; 15% by 2015; 20% by 2020

<i>Illinois</i>	<i>8% by 2013</i>
<i>Iowa</i>	<i>105 MW statewide</i>
<i>Maine</i>	<i>30% by 2000</i>
<i>Maryland</i>	<i>7.5% by 2019</i>
<i>Massachusetts</i>	<i>4% by 2009; +1% each year after</i>
<i>Minnesota</i>	<i>Xcel: 1,125 MW wind by 2011; others: 10% goal by 2015</i>
<i>Montana</i>	<i>15% by 2015</i>
<i>Nevada</i>	<i>5% by 2003; +2% every 2 years until 15% by 2013</i>
<i>New Jersey</i>	<i>1% by 2006; +.5% per year to 4% by 2012</i>
<i>New Mexico</i>	<i>5% by 2006; 10% by 2011</i>
<i>New York</i>	<i>25% by 2013</i>
<i>Pennsylvania</i>	<i>18% by 2020 (varies by tier)</i>
<i>Rhode Island</i>	<i>16% by 2019</i>
<i>Texas</i>	<i>2,000 MW by 2009; 5,580 MW by 2015</i>
<i>Wisconsin</i>	<i>2.2% by 2011</i>
<i>Vermont</i>	<i>10% by 2012 (voluntary goal)</i>

Source: American Wind Energy Association, updated Sept. 2, 2005